



Mogale City
Local Municipality

Adjustment Budget Management Policy

ANNEXURE 10

TABLE OF CONTENTS

1.	INTRODUCTION	3
2.	KEY COMPONENTS OF THE POLICY	3
3.	UNDER-COLLECTION OF REVENUE	4
4.	EMERGENCY OR OTHER EXCEPTIONAL CIRCUMSTANCES.....	5
5.	MID-TERM BUDGET REVIEW	5
6.	PROCEDURAL APPLICATION.....	5
7.	APPLICATION AND SCOPE OF THE POLICY.....	7
8.	MSCOA COMPLIANCE	7
9.	BREACH OF POLICY.....	8
10.	APPROVAL OF THE ADJUSTMENT BUDGET POLICY.....	9

1. INTRODUCTION

The Adjustment Budget Policy is amended from the Budget Management Policy and has been in effect as of 1 July 2014. The rational for developing this Policy is to comply with the regulations set out within with the Municipal Finance Management Act (MFMA), 2003, (Act 56 of 2003), in order to:

- a. Establish, maintain and approve a policy framework by which Executive Managers, Managers and Specialists can compile, control and review departmental budgets to ensure effective financial management;
- b. Assist the Executive Mayor, Mayoral Committee, Accounting Officer, Executive Managers, Managers and Municipal Officials in identifying and detecting financial constraints and other issues on time and during the adjustment process so as to implement intervention; and
- c. Be approved for implementation from **1 July 2020**.

2. KEY COMPONENTS OF THE POLICY

- 2.1. A municipality has to revise an approved annual budget through an adjustment budget. The adjustment budget must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue. It may also appropriate revenues that have become available, or it may authorize certain other adjustments elucidated in the Act. Only the Executive Mayor may table an adjustment budget in the Municipal Council.
- 2.2. An adjustment may be tabled in the Municipal Council at any time after the mid-year budget and performance assessments have been tabled at Council, by no later than 28 February of the current year.
- 2.3. Only one adjustment budget may be tabled in the Municipal Council during a financial year, except when the additional revenues are allocated to a municipality in a National or Provincial adjustments budget.
- 2.4. The Executive Mayor may, within 60 days after unforeseeable and unavoidable expenditure was incurred for the purpose of an emergency or other exceptional circumstance and for which no provision was made in an approved budget, table an adjustments budget.

- 2.5. An adjustments budget as per the MFMA Section 28 (2) (g) may only authorize unauthorized expenditure as anticipated by section 32 (2) (a) (i) of the MFMA, and must deal with –
 - A special adjustments budget tabled in the Municipal Council when the Executive Mayor tables the annual report in terms of Section 127 (2) of the Act, which may only deal with unauthorized expenditure from the previous financial year which the Council is being requested to authorize in terms of section 32 (2) (a) (i) of the MFMA.
- 2.6. In terms of the MFMA, essentially three conditions (explained in detail below) can be defined necessitating an adjustment budget, namely:
 - Under-collection of revenue
 - Emergency or other exceptional circumstance; and
 - Mid-term budget review

3. UNDER-COLLECTION OF REVENUE

- 3.1. The Accounting Officer must ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget or in the Service Delivery Budget Implementation Plan (SDBIP).
- 3.2. Should a material under-collection of revenue become apparent, it will be necessary for the Municipality to revise the budgeted revenue levels to a realistic forecast. It is also necessary to revise the expenditure levels associated with this revenue downwards in proportion to the revenue budgeted. This could be undertaken with the mid-term budget **review**, which could result in an adjustment budget.
- 3.3. Should the under-collection however be considered to be material of nature, the CFO should report such under-collection to the Accounting Officer as a matter of urgency to consider implementing corrective measures. Material is normally considered to be 10% or more of an individual item measured against the periodic planning for that item. In some cases, the magnitude of the amount concerned may suggest a deviation of less than 10%.

4. EMERGENCY OR OTHER EXCEPTIONAL CIRCUMSTANCES

The Executive Mayor may in case of an emergency or other exceptional circumstances authorize unforeseeable and unavoidable expenditure for which no provision was in the annual approved budget of the municipality.

5. MID-TERM BUDGET REVIEW

- 5.1. Municipalities are required to assess their performance during the first half of the financial year based on their respective services delivery targets, their performance indicators and financial performance. The assessment has to take place on or before **25 January** each year to remain in compliance with Section 72 of the MFMA.
- 5.2. The assessment outcomes may or not necessitate budget adjustments. In instances where an adjustment budget is necessitated, an adjustment budget has to be prepared and submitted to the Executive Mayor for consideration and tabling in the Municipal Council.
- 5.3. In terms of Section 72 (3) of the MFMA the Accounting Officer must as part of the review to:
 - Make recommendations as to whether an adjustments budget is necessary; and
 - Recommend revised projections for revenue and expenditure to the extent that is necessary.

6. PROCEDURAL APPLICATION

The following administrative procedure will have to be adhered to in terms of the classifications.

- 6.1. In the event of an emergency or exceptional circumstance occurring during the first four months of the financial year (July to October), the following procedure shall be adhered to:
 - 6.1.1. When the relevant or affected senior management official becomes aware of the emergency or exceptional circumstances occurring, he or she should immediately inform the Member of Mayoral Committee and the Accounting Officer/ Municipal Manager of the emergency or exceptional circumstances that occurred;
 - 6.1.2. Together with the Member of Mayoral Committee; the Accounting Officer and the Chief Financial Officer are to convene an urgent meeting to determine:
 - a. The extent of the emergency or exceptional circumstances;

- b. The financial implications thereof;
 - c. The urgency and consequences of actions to be taken;
 - d. Whether or not the emergency or exceptional circumstances can be accommodated within the allocations of the approved budget vote;
 - e. Whether or not the emergency or exceptional circumstances would necessitate an amendment to the approved budget; and
 - f. Whether or not the emergency or exceptional circumstances may be dealt with during the mid-term budget and performance review.
- 6.1.3. The relevant or affected senior management must ascertain and conclude that emergency or exceptional circumstances cannot be managed or accommodated within the stipulated budget allocations by way of known saving, reprioritization of expenditure, operational gains.
- 6.1.4. Should this be the case, the relevant senior management official must compile a report, in the prescribed, and subsequently submit the report to the Member of Mayoral Committee and Accounting Officer/(Municipal Manager) for evaluation in the consultation with the Chief Financial Officer to determine whether an exceptional Adjustment Budget is necessary.
- 6.1.5. If not, the issue must be held in abeyance until the mid-term budget and performance review to be undertaken in November, December and January which could result in an Adjustment Budget being tabled during February of that financial year.
- 6.1.6. Should this issue (emergency or exceptional circumstance) necessitate the tabling of an exceptional Adjustment Budget, as to be determined by the Accounting Officer/(Municipal Manager) in consultation with the Chief Financial Officer, the MM must advise the Executive Mayor as a matter of urgency.
- 6.1.7. After consideration the relevant facts, the Executive Mayor can authorize the related expenditure in terms of Section 29 of the MFMA. The Executive Mayor must however table the proposed adjustment at the next Council Meeting. In the event that the adjustment budget not be passed within 60 days of the incurred expenditure, the expenditure can be considered unauthorized and Section 32 of the MFMA applies. Expenditure is deemed to be unauthorized, as a result of non-acceptance by the Municipal Council, Section 32 applies where there is a potential for political office bearers, the accounting officer or the other official being held liable for the expenditure.
- 6.2. In the event of an emergency or exceptional circumstances occurring during the months of November, December or January of a particular financial year the following procedure shall be adhered to:

- 6.2.1. The issue shall be raised during the mid-term budget and performance review of that particular department.
- 6.2.2. Subsequently be included in the Adjustment Budget.
- 6.3. In the event of emergency or exceptional circumstance occurring after the mid-term review and adjustments budget was finalized, the same procedure as stated for the first four months of the financial year, shall apply.

7. APPLICATION AND SCOPE OF THE POLICY

- 7.1. This policy framework is not applicable to situations referred to in Section 31 of the MFMA. Section 31 applies to capital projects approved with multi-year allocations. It allows a 20% increase in a single year's appropriation, provided the increase is funded by a reduction in the following year's appropriation. The MFMA specifies the procedure to be followed, which includes notification to the Provincial Treasury and the Auditor-General.
- 7.2. This Policy applies to all Municipal Officials and Public Office Bearers in the employ of Mogale City Local Municipality.
- 7.3. This Policy is in strict compliance with the MFMA and all other relevant legislation passed by National and Provincial Treasury.
- 7.4. Where this policy is in conflict with any law or by-law governing MCLM, the Act or By-Law shall prevail.

8. MSCOA COMPLIANCE

All municipalities have a chart of accounts. The chart of accounts is a listing of all the accounts used in the general ledger of the municipal entity. This chart is used by the accounting software to aggregate information into the respective municipality's financial statements. MSCOA is the Municipal Standard Chart of Accounts that aims to standardize the chart of accounts of all municipalities and municipal entities within South Africa. The purpose of mSCOA is to accurately record all transactions for more timely financial management which will result in unqualified audit opinions. It will also improve the quality and accessibility of information having the required information tabled for Council decisions. Lastly, it will ensure that the IDP, Budget and Project Plans are aligned thus leading to a positive impact on service delivery. There are **seven** segments that need to be complied with namely:

1. Project
2. Function
3. Item
4. Fund

5. Region
6. Costing
7. Municipal Standard Classification

This Policy's compliance to mSCOA regulations and reporting lies in the *Funding Segment* and of the 15 process, this Policy applies to the *Municipal Budgeting, Planning and Financial Modelling* process. During the adjustment budget process, the trial balance will be analysed against the mSCOA classification framework in order to identify new accounts and obsolete accounts. Votes and Sub-Votes will also be created in line with the mSCOA function table. Funds that are allocated to a specific vote and for a specific project cannot be transferred to another vote number in terms of mSCOA legislation. In an instance where funds run out in a particular vote/cost centre, funds can only be allocated during the period of the adjustment budget. With mSCOA, all funds will be allocated to specific cost centres. Emergency funds will be allocated in its own cost centre. Only the Executive Mayor can approve the usage of emergency funds. Any form of fraud, misuse and misappropriation of these allocated funds during the adjustment budget period will constitute as financial misconduct and the individual responsible will be held accountable.

9. BREACH OF POLICY

This Policy will be considered breached in the following instances:

1. The Adjustment Budget fails to comply with the MFMA and any other legislation applicable;
2. If any Municipal Official or Public Office Bearer is found guilty of any form of financial misconduct; and
3. Allocated funds are used for projects that they were not allocated to.

10. APPROVAL OF THE ADJUSTMENT BUDGET POLICY

This Policy will be in effect after the approval by the Municipal Council; this Policy will be in effect from **1 July 2020** and must be reviewed annually.
